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DIRECTORATE OF
INTELLIGENCE

Intelligence Memorandum

Some Aspects of Recent Soviet Grain Purchases

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INTELLIGENCE MEMORANDUM

SOME ASPECTS OF RECENT SOVIET GRAIN PURCHASES

Introduction

1. Poor harvest prospects this year and a change in Soviet agricultural policy are forcing the Soviets to import record quantities of grain and soybeans. This memorandum examines the reasons for such massive imports, the ability of the USSR to finance the purchases, and the Soviet capability to handle a grain lift of this magnitude.

Summary and Conclusions

2. This year's poor harvest, a result of severe winter weather and summer drought, is forcing the Soviets to import record quantities of grain. So far they have bought about 25.2 million metric tons of grain and soybeans worth almost US $1.6 billion, mainly from the United States, for delivery in fiscal year (FY) 1973. This is three times the quantity imported in FY 1972 and more than twice the amounts bought after the disastrous harvests of 1963 and 1965. A disappointing harvest of other major crops such as sugar beets could drive the Soviets into other world markets. The USSR has been a net importer of agricultural commodities over the last two decades, and net agricultural imports could double in FY 1973 over FY 1972.

3. The massive grain imports this year are mainly a result of poor harvest prospects but also reflect a recent change in agricultural and consumer policy. Brezhnev's livestock program, aimed at improving the Soviet diet, has required large increases in grain supply which have exceeded

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Note: This memorandum was prepared by the Office of Economic Research.

Soviet grain production, even in good years. In FY 1972, after two bumper harvests, the Soviets purchased 7.8 million tons of grain on the world market.

4. The USSR should have no major difficulty raising the funds to pay for grain imports. US Government credits will cover up to $500 million in purchases. The remaining $1 billion or so could be financed by gold sales alone or by a combination of gold sales and borrowing on the Eurodollar market. Soviet gold reserves ($2.1 billion at $38 an ounce) are at the highest level in years; and, with South African sales down sharply, the gold market can absorb larger Soviet sales in the first half of FY 1973 at a price near $65 an ounce. Actually, Moscow is likely also to curb unessential imports somewhat and to push exports harder, although the hard currency savings from these adjustments are limited – probably less than $400 million.

5. Although the grain imported this year will be more than double the record 10.4 million tons in FY 1964, the USSR should have no difficulty transporting the grain – either by using its own ships or by chartering non-Communist ships. With more than 5 million deadweight tons (DWT) of shipping laid up around the world with enough capacity to ship more than 25 million tons a year from US Gulf ports to the Baltic Sea, voyage charter rates are the lowest since mid-1963. Thus, Soviet costs for chartering would not be excessive. Soviet port facilities also should be able to handle this size of grain lift without major problems. The major ports have all been improved since the last large lift, and several other ports are now available, giving the USSR a capability of handling 30 million to 36 million tons of grain over a one-year period.

Discussion

6. A poor harvest this year is forcing the Soviets to import record quantities of grain. They have bought about 25.2 million tons of grain and soybeans worth almost $1.6 billion, mainly from the United States, for delivery in FY 1973. Additional purchases of grain and vegetable oil are possible, and purchases of sugar from the world market seem likely in view of the prospects for a poor Soviet sugar beet harvest.

7. During most of the last two decades, the USSR has been a net importer of agricultural commodities. Major exports have been grain, refined sugar, sunflower seed and oil, and cotton – mainly to client states in Eastern Europe – while imports have been distributed over a wide variety of farm products – largely from hard currency countries and the less developed countries (LDCs) – see Table 1. This year's record grain purchases and

Table 1

Soviet Agricultural Commodity Trade a/

Million US $

Year	Agricultural Exports	Agricultural Imports	Net Agricultural Exports b/		
			Total	To Eastern Europe	To Hard Currency Countries
1962	1,324	1,224	100	537	-153
1963	1,278	1,465	-187	451	-261
1964	970	2,040	-1,070	283	-850
1965	1,102	2,193	-1,091	236	-714
1966	1,295	2,156	-861	291	-648
1967	1,622	1,929	-307	290	-308
1968	1,596	1,853	-257	283	-265
1969	1,610	1,996	-386	168	-267
1970	1,480	2,578	-1,098	179	-795
1971	1,580	2,725	-1,145	220	-342
1972 c/	1,650	3,800	-2,150	N.A.	N.A.

a. Calendar years.
b. A minus sign denotes net imports.
c. Estimated.

expected imports of sugar and vegetable oil could double net agricultural imports in FY 1973 over FY 1972.

Policy Changes

8. The purchase of record amounts of grain for delivery in FY 1973 reflects in part the prospects for a decline in Soviet grain output, and in part the increased demand resulting from a recent change in agricultural and consumer policy. Traditionally, the USSR has been a net exporter of grain, importing large quantities only when forced to by bad harvests such as in 1963 and 1965. However, Brezhnev's recent program to provide much larger quantities of meat and other livestock products to the consumer has upset the fragile balance the country has maintained between the amount of grain grown and the amount consumed.

9. The expansion of livestock herds and increased feed rations per animal, coupled with continued inefficiency in converting feed to liveweight, have greatly raised Soviet requirements for grain. While the annual use of

grain for food purposes has remained the same over the past decade, the use of grain as livestock feed rose by roughly 40% between 1968 and 1971. Even in FY 1972 after a second consecutive bumper harvest, the USSR, in an effort to maintain the forward momentum of its livestock program, purchased 7.8 million tons of grain worth nearly one-half billion dollars. Moreover, this year the Soviets apparently had decided to continue large purchases from the West on a long-term basis even before the bad weather damaged the winter grain crop. By February they had bought 3.5 million tons of wheat from Canada for delivery in FY 1973. In May they agreed to buy at least $750 million worth of US grain over a three-year period and at least $200 million worth in the first year.

The 1972 Harvest and Agricultural Imports

10. This year's harvest of usable grain is estimated to be at least 16 million tons below the record of 148 million to 150 million tons harvested in 1970-71 (see Table 2). The relatively poor harvest prospects are a result of severe winter weather and summer drought.(1) One-third of the winter grain crop was lost to a January cold wave. A successful drive to replant with spring grains was launched, but insufficient soil moisture in some of the major grain regions dashed any hopes of matching the 1971 bumper harvest. Moreover, high temperatures and heavy rains during the harvest of early maturing grains contributed to a sharp decline in production in key areas. And, too, because of lateness in ripening of grain in the important New Lands area of Siberia and Kazakhstan, there is a possibility of above-normal losses in September and early October. Thus, if weather conditions continue to delay the harvest, even the current prospects may not be attainable.

11. The Soviet grain problem is compounded by the fact that other important agricultural products such as livestock feed and potatoes are suffering from the adverse weather. Production of forage crops – a key element in Brezhnev's campaign to increase meat supplies – will be down considerably this year.(2) This shortfall will necessitate an increased use of grain for feed. In addition, the continuation of the drought in August that had earlier affected the grain harvest in the European USSR has reduced the potato crop, the other important starchy staple in the Russian diet. This development coming after the major grain purchases of July and early August may further complicate the regime's plans for sustaining livestock production at recent levels by using imported grain as livestock feed.

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2. Important forage crops, the production of which is believed to be below the average for 1970 and 1971, include silage (9% of total feed units in 1970), green chop (9%), potatoes (3%), hay (11%), straw (6%), and pasture (23%).

Table 2

USSR: Production, Exports, and Imports of Grain

Thousand Metric Tons

Production		Trade a/			
Calendar Year	Usable Grain b/	Fiscal Year c/	Exports	Imports d/	Net Exports
1963	92,000	1964	5,330	10,351	-5,021
1964	120,000	1965	4,322	2,960	1,362
1965	100,000	1966	4,362	9,526	-5,164
1966	140,000	1967	5,389	5,679	-290
1967	122,000	1968	6,466	2,593	3,873
1968	135,000	1969	7,133	1,827	5,306
1969	128,000	1970	7,421	2,092	5,329
1970	150,000	1971	8,260	3,224	5,036
1971	148,000	1972	8,000 e/	7,790	210
1972	132,000 e/	1973	8,000 e/	24,200	-16,200

a. Including flour (converted into equivalent grain by using a 72% extraction rate) and groats.
b. Estimate. Net usable grain is estimated as the officially claimed gross output minus excess moisture, unripe and damaged kernels, weed seeds and other extraneous materials, post-harvest losses incurred in loading and unloading grain between the grain harvesting combine and storage facilities, and suspected biases in the official reporting of grain production.
c. Data are an average of two calendar years, except for imports in FYs 1964-66 and FYs 1972-73. Data are for fiscal years ending 30 June of the stated year.
d. Including purchases on Soviet account for shipment to East European countries and other client states.
e. Preliminary estimate.

12. Prospects are uncertain for the sunflower seed and sugar beet crops, but they have suffered from the same weather conditions that afflicted the grain crop. Moreover, these late maturing crops are now threatened by a continuation of hot, dry weather throughout August. Although the area planted to sunflowers is larger than last year, decreased yields should drop the harvest to the depressed level of production of 1971. A recent Soviet press article claimed that this shortfall would restrict the USSR's ability to export sunflower seed and oil. The 1972 sugar beet crop is expected to be no greater than the poor harvest of last year and about three-quarters of the record crop of 1968.

13. In addition to their domestic requirements, the Soviets are usually committed to export about 7 million to 9 million tons of grain to their client states, mainly Eastern Europe. Eastern Europe traditionally has imported grain and other raw materials from the Soviets in payment for exports of machinery and other industrial items, thereby saving their foreign exchange for purchases of Western machinery. Soviet exports to these client states in Eastern Europe are more a function of Soviet policy than of the flexibility of these countries in securing their own supplies from the West.

14. To fill the gap between domestic production and total requirements for food, livestock feed, and exports to client states, the Soviet Union has purchased large quantities of grain on the international market. Total grain contracts with all countries for delivery during FY 1973 now total 24.2 million tons (see Table 3) worth almost $1.5 billion, three times the quantity imported in FY 1972 and more than twice the amounts bought after the disastrous harvests of 1963 and 1965. A recent contract for 1 million tons of soybeans, to be used for livestock feed and vegetable oil, brings total purchases of grain and soybeans to about $1.6 billion. These imports of grain and soybeans will be largely from the United States – 17.5 million tons – with the remainder from Canada, France, Australia, and Sweden. Most will go directly to the Soviet Union but some will go to its client states to cover export commitments. 25X1

15. The disappointing harvest of forage crops, sugar beets, and sunflower seed could drive the Soviets into additional purchases of grain and into other international markets. As in FY 1972, the mediocre sugar beet harvest in the USSR coupled with a disastrous harvest in Cuba(3) could lead to large sugar imports from non-Communist countries in FY 1973. Additional purchases of soybeans and vegetable oil could be used to offset a poor sunflower seed crop. Moreover, if the forage crops suffer from further

3. Imports from Cuba have accounted for up to one-fifth of total Soviet output of refined sugar.

Table 3

Soviet Grain Purchases

Million Metric Tons

Commodity and Origin	Expected Deliveries a/ FY 1972 b/	FY 1973 b/
Wheat	4.52	17.60
United States	--	11.10
Canada	3.52	5.00
Australia	0.50	1.00
France	0.50	0.50
Barley and oats	1.15	1.60
United States	0.80	0.40 c/
Canada (barley)	--	0.20
France (barley)	0.25	0.50
Finland (oats)	0.05	--
Sweden	0.05	0.50
Corn and grain sorghums	2.12	5.00
United States	1.96	5.00
Other	0.16	--
Total	7.79	24.20

a. Not all deliveries will be made to the USSR.
b. Data are for fiscal years ending 30 June of the stated year.
c. From the previous year's contract.

drought conditions during August and September, the Soviets may be forced to spend even more for foreign grain to prevent distress slaughtering of livestock.

Financing Hard Currency Costs

16. The almost $1.6 billion in Soviet grain and soybean imports during FY 1973 will necessitate major hard currency outlays by the USSR. Even if the USSR utilizes all of the $500 million in three-year credits of the Commodity Credit Corporation (CCC) available from the United States, the

Soviets must raise more than $1 billion in additional hard currency during FY 1973 to pay for the balance of these imports and for whatever hard currency costs are incurred for ship chartering. The Soviets could raise these funds from gold sales alone or from a combination of gold sales and borrowing from the Eurodollar market. In the past, however, Moscow, when faced with exceptional hard currency needs, has also made cuts in imports and efforts to raise exports, and there are signs that it will do so again this time.

Gold Sales

17. The Soviets are almost certain to increase substantially their gold sales and could, if they wished, finance the entire grain import requirement in this manner. They have sold only small quantities of gold in recent years, and as a result their gold reserves have steadily increased, reaching 1,750 tons[4] by the end of 1971. With their reserves now above the 1963 level and with production – estimated at 275 tons in 1972 – continually increasing, the USSR is in a good position to re-enter the world market as a major seller of gold. Market conditions for Soviet gold sales will be most favorable during the first half of FY 1973 because South African sales during this period are expected to be far below normal levels while basic private demand is rising steadily. Ignoring possible speculative demand, which could raise or lower the gold price, the USSR probably could market up to 200 tons of gold during the first half of FY 1973 without causing the free market price to fall substantially below the mid-1972 level of $65 per troy ounce. Sales of 200 tons at $65 per ounce would earn the USSR $418 million, an amount sufficient to cover the major portion of any hard currency demands arising from the grain and soybean deliveries during this period.

18. The gold market should soften considerably in the second half of FY 1973 if, as expected, South African sales recover to more normal levels. This could mean a decline in prices even in the absence of larger Soviet sales. With non-Soviet free market supply about 1,200 tons a year (600 tons per half-year) every 60-ton sale of Soviet gold in January-June 1973 would tend to lower the price further, by about 10%.[5] Even so, the USSR could sell gold far in excess of its annual output in the course of FY 1973 at prices far above the official parity, thereby covering its hard currency costs.

European Loans

19. Although current conditions in the free gold market would argue for substantial Soviet gold sales, at least during the first half of FY 1973,

4. Valued at $2.1 billion at $38 per troy ounce.
5. The elasticity of demand for gold is believed to be about unity.

the USSR is not necessarily limited to this course of action and more likely will meet its hard currency obligations through a combination of gold sales and short-term and medium-term credits. The Soviets, acting through their banks in Western Europe, have dealt extensively in the Eurocurrency market and could utilize their banks to raise some $200 million to $250 million in short-term Eurocurrency loans. In addition, because the USSR has been a net lender of up to an estimated $300 million to $400 million to its banks in the West, a combination of short-term loans and Soviet drawdowns on existing deposits could provide the USSR with $500 million to $650 million in hard currency during the next 12 months. The Soviets also have access to funds of the International Bank for Economic Cooperation (IBEC) of the Council for Mutual Economic Assistance (CEMA), including the $160 million in medium-term Eurodollar credits recently raised by IBEC. Since some of the imported grain undoubtedly is destined for consumption in Eastern Europe, the USSR should be in a position to utilize such funds for grain payments. If necessary, the USSR could also help cover its hard currency needs through the formation of consortium loans similar to the one formed in 1964 by Moscow Narodny Bank with British banks which provided $112 million in medium-term credits to cover the cost of grain purchases from Australia.

<u>Trade Adjustments</u>

20. Although Moscow could handle the financing of its grain purchases entirely with gold sales and new borrowing, it is likely also to make adjustments in its imports and exports. [redacted] 25X1

in previous periods of increased hard currency needs, notably in 1963-66, Moscow has held down imports and pushed exports harder, and it would be consistent with its usual approach to include such adjustments in the present situation, even though it probably considers the currency problems to be temporary.

21. The easiest adjustment in imports would involve curbs in hard currency purchases of manufactured consumer goods which have been remaining slightly below $400 million and the possible substitution of additional purchases from Eastern Europe. Soviet imports of machinery and equipment and other items mainly covered by medium-term and long-term credits are not likely to be much affected, although there could be some cutback in cash purchases. For example, the USSR may now be less willing to pay cash to obtain US state-of-the-art technology, opting instead for slightly less desirable but similar equipment produced in Europe and

financed by long-term credits. The hard currency problem could increase Soviet interest in entering into further cooperative agreements with the West (for example, natural gas and petroleum development), with such agreements all the more likely as sources of large, new Soviet hard currency earnings.

22. The USSR could increase its hard currency exports specifically of diamonds, platinum, and platinum group metals on short notice, but only to a small extent. The best prospects for increased hard currency exports, however, are from expanded sales of Soviet crude oil to the West. Together, the adjustments in exports and imports probably will be less than $400 million.

Transportation Considerations

23. The current Soviet grain and soybean purchases (which exceed 25 million tons) are more than double the record 10.4 million tons that moved in FY 1964. About 23 million tons will go to Soviet ports, 1 million tons will go directly to the USSR's clients in Eastern Europe (via Hamburg and East German and Polish Baltic ports), and a slightly smaller quantity to Cuba. Most shipments to the USSR will move to ports on the Black and Baltic seas; the remainder, probably less than 2 million tons, will go to the Soviet Far East.

24. The USSR should have no difficulty arranging for the movement of grain cargoes either on its own ships or, when they are unavailable or ineligible to participate, on chartered ships from non-Communist countries. Soviet ships will be utilized most heavily in the movement of grain and flour from countries other than the United States because these sales are believed to be on an f.o.b. basis,[6] making the USSR responsible for transportation. Non-Soviet ships, most of them chartered from hard currency countries, probably will play a major role in the sizable – at least 17.5 million tons – lift from the United States, where most of the sales have been c.i.f. or c.a.f.,[7] requiring the seller to arrange all shipping. If some US grain is sold on an f.o.b. basis, participation by Soviet ships in that movement would be restricted if present US policy which bans the carriage of government-financed cargoes by ships that have called in Cuban and North Vietnamese ports during recent years remains in effect. About 7.5 million tons of wheat – or some 45% of Soviet grain purchases from the United States – may be financed by CCC credits. Another restriction to use of Soviet ships in this trade is the threat of a boycott by the International Longshoremen's Association (ILA), but this threat may be receding.

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6. **Free on board**, terms of sale under which the buyer must provide shipping space from the port of the seller, and shipping charges are excluded from the sales price.
7. **Costs, insurance, and freight** and **costs and freight**, terms of sale under which the seller provides shipping to a port of discharge designated by the buyer, and shipping costs are included in the sales price.

25. Until recently, opportunities for Soviet ships to move grain from US ports have also been limited by the long-standing threat of the ILA to boycott all Soviet ships attempting to load or discharge cargo in US ports on the Great Lakes and the eastern and Gulf coasts. Developments during the past month, however, may portend a change. On 3 August, for example, members of an ILA local in Baltimore willingly participated in the offloading from a Soviet freighter of a gift hydrofoil for the President; more recently the head of a Memphis trading firm announced that soybeans sold to the USSR will be loaded on Soviet cargo ships in Chicago with the compliance of an ILA local there. Thus, a new pattern seems to be emerging, one in which longshoremen, spurred by prospects of sizable financial benefits from the handling of grain and other cargoes in US-Soviet trade, are moving away from their boycott threat. In the past the ILA's refusal to handle Soviet shipping was not particularly costly to the membership, because only a handful of Soviet ships would have been involved. Now, the scenario is totally different. Beyond the grain lift, which could involve relatively large numbers of Soviet ships for at least three years, there are longer range prospects for a general increase in US-Soviet trade. When translated into practical considerations these conditions can only mean substantial financial gains for the union.

26. By the end of 1972 the capacity of the Soviet merchant fleet should reach 13 million DWT, almost twice its size at the height of the FY 1964 lift in which its vessels carried more than 3 million tons of grain. It should, therefore, be capable of a major contribution to the present movement even though most Soviet merchant ships are already fully occupied in the movement of Soviet domestic and foreign trade cargoes. Because exports outweigh imports by 9 to 1 in the USSR's overseas trade, many Soviet ships will be able to carry grain imports with little deviation from their routine operating patterns.

27. The situation on the world charter market for dry cargo ships and tankers presently is advantageous for the Soviets. Ships laid up around the world because of the current depression in freight rates total more than 5 million DWT, capacity sufficient to move more than 25 million tons a year from US Gulf ports to the Baltic Sea. From the end of 1971 to the present, voyage charter rates for dry cargo tonnage have been at their lowest levels since mid-1963, immediately before the rate boost set off by Soviet grain purchases in that year. Market response thus far to chartering by international trading companies for grain shipments from the United States to the USSR and to news releases on additional purchases from the United States has been slight. Record deliveries of new tonnage to the world fleet in 1971 and the fact that both the dry cargo and tanker markets are depressed at the same time may prevent a dramatic escalation of rates such as that in the second half of 1963 when charter rates in the grain trade

rose by almost 50%. As a result, hard currency costs for the USSR would not be an unreasonable burden if extensive chartering is necessary, and it could be handled within the financing methods discussed above.

Capability of Soviet Ports to Receive Grain Imports

28. Assuming reasonable scheduling, the Soviet ports should be able to handle up to 30 million to 36 million tons of grain imports over a one-year period without serious delay. The pattern of deliveries should be similar to that in the FY 1964 lift when 75% of the tonnage to the USSR was discharged in ports on the Black (mainly Odessa and Novorossiysk) and Baltic (Leningrad) seas and the remainder went to the Soviet Far East (mainly Nakhodka). Facilities at the four main ports mentioned above have an estimated capacity of well over 2 million tons a month. In addition, at least five other lesser ports have been used in the past for substantial grain imports on both Western and Communist vessels. Another seven closed ports have also been used for this purpose by Soviet vessels only, for a total of at least 16 different ports which might be used.

29. On the basis of incomplete data, the maximum observed monthly rate for total grain imports during the crisis of FY 1964 amounted to a little more than a million tons. Peak weekly rates observed at each port indicated minimum total capacities of about 1.6 million tons per month, and non-Communist ships that visited these ports reported no undue delays. In fact, substantial sums were collected by the Soviets for less-than-contract-time turnaround of foreign ships.

30. The ports involved have experienced considerable expansion and modernization since FY 1964, and capacity may have increased by 30% to 50%. Depths in the grain harbor at Odessa, for example, have been increased to accommodate ships drawing as much as 38 feet, and at least 35 portable pneumatic grain unloaders have been added. Additional deepwater moorings are also available at Novorossiysk, and Nakhodka has been improved and berthing space there extended. The growing new port of Ilichevsk, a minor participant in the FY 1964 operation, is now reported to have a greater capacity than its neighbor, Odessa. In addition, adequate port storage probably is available for whatever amounts are not loaded directly into rail cars and moved to interior points. As demonstrated in the past, priority, both in unloading and in supplementary transport, probably will be given to grain imports.